

Q & A

Q. Is a benchmark a standard for fund performance?

A. Yes, you can evaluate the performance of a fund, a stock, or any other investment against its corresponding benchmark. Returns alone tell you little about relative performance. For example, if your stock fund returned 5% for the year, and the benchmark averaged 10%, that 5% is comparatively low. Holding a fund up to its appropriate benchmark may help you put your returns in perspective.

Q. Is the S&P 500 Index the best benchmark with which to compare all your funds?

A. No, there are hundreds of benchmarks that track stock, bond, and money market investments. The S&P 500 Index tracks the stocks of 500 large U.S. companies and is widely regarded as the benchmark for measuring large-cap U.S. stock performance. If you hold a small-cap fund, however, the S&P 500 Index wouldn't be the benchmark for you to use. You'd likely consider the Russell 2000 Index, which measures the performance of 2,000 small companies. So, unless all your funds in your portfolio are the same type, no one benchmark will be appropriate for all of them.

Q. Is considering a fund's performance over one year an acceptable evaluation period?

A. No, you should examine longer time periods to better evaluate a fund. For example, Morningstar, an independent research firm, generally measures fund performance over 1-, 3-, 5-, and 10-year periods. Although past performance is no guarantee of future results, a long-term look at fund returns gives a more accurate picture of how that fund performs. Fund performance and respective benchmarks are listed in the Performance section of your quarterly statement.

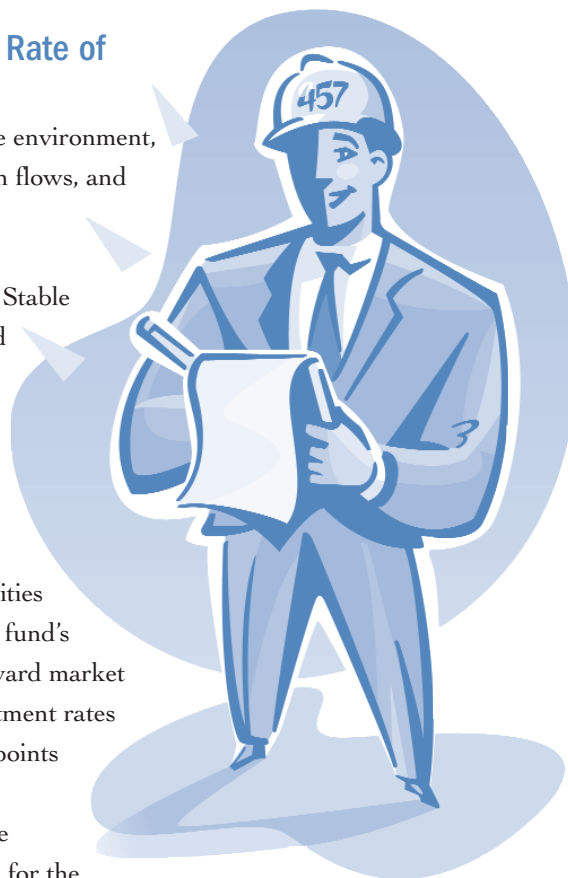
We Moved!

In March, the Deferred Compensation Office moved to the building previously occupied by the Department of Lottery at 201 East Madison, Room 1C. The mailing address is P.O. Box 19208, Springfield, IL 62794-9208. The telephone numbers remain the same.

Stable Return Fund Rate of Return in 2004

Based on the current rate environment, historical participant cash flows, and INVESCO's modeling assumptions, the rate of return for the Stable Return Fund is estimated at a range of 4.05% to 4.55% for 2004.

During the year, it is expected that low reinvestment rates and high-yielding GIC maturities will continue to push the fund's spot yield downward toward market rates. The current investment rates remain 150 to 200 basis points below the fund's yield of 4.60%. As a result, the estimated blended return for the year will follow this downward trend.



Investment Consultant Selected

The Deferred Compensation Division selected Deloitte & Touche to perform the review of the Plan as the independent consultant. The purpose is to provide an analysis of the current fund performance and the overall structure of the investment lineup.

Deloitte & Touche will determine if there are any redundancies or gaps in the Plan's structure by considering style, objective, and the optimal number of investment options for a plan while allowing for proper diversification. The review is set to begin in April.



Online Statements

A Better Way to Organize Your Financial Documents

Your statements are valuable documents, yet keeping them safe and organized can be a challenge. That's why they're now made available online.

The new online features make it easy and convenient for you to:

- Get your statement information wherever there's Internet access.
- See your statements as soon as they're ready, without having to wait for the mail.
- Control clutter with online filing and storage for up to seven years, including requested Statements on Demand.

You'll still be getting your hard-copy versions mailed to you, but you're sure to enjoy the convenience of getting your statements online. Visit the **myRetirementPlan** Web site today at rps.troweprice.com to view your most recent quarterly statement. Simply click on the "My Services" tab and choose online statements. If you register your e-mail address, you will be notified when the next statement is ready for you to review. If you have not yet signed up for account access, you can do so by calling 1-800-541-3020.

Annual Audit

Please review your quarterly statement carefully! If it does not agree with your records, contact our auditors directly at:

Sikich Gardner & Co., LLP
1000 Churchill Road
Springfield, Illinois 62702

Your Interest in Interest Rates

At the start of 2004, the federal funds rate, the interest rate banks charge each other for overnight loans, was parked at a 45-year low of 1%. How does the low-rate environment impact bond investments? And when rates start to rise, which they likely will at some point, how should you handle the bond portion of your retirement savings portfolio?

Interest Rates Sink, Bonds Surge...

Generally, existing bonds benefit from falling interest rates. The value of these bonds tends to rise in comparison to newly issued bonds that have lower rates. For example, an older bond yielding 6% becomes more attractive to investors than a bond yielding 4%.

...Bond Funds, too

Likewise, bond funds generally get a boost from falling interest rates. Bond funds don't have a specific maturity date, a set time when the loan is paid off, because they continually buy and sell bonds that mature at different times and at different rates. They are made up of individual bonds, which means that as interest rates and bond prices fluctuate, so do the values of bond funds.

When the Tides Turn

Rising interest rates can have the reverse effect on fixed-income investments. Generally, the value of existing bonds will be reduced in this climate, as the demand decreases for old issues that have lower interest rates than the new issues. If the value of the individual bonds in your bond fund goes down, so does the value of the fund itself.

Take Action

Over time, rising (or falling) interest rates may alter your bond allocation. In that event, be prepared to restore your desired asset allocation. Changing interest rates may make headlines, but your mission as a long-term investor is to avoid making knee-jerk responses to them. Your goal is financial freedom in retirement, so it's probably in your best interest to keep your bond wits about you at all times.

A Word About Risk

In the world of investing, risk is unavoidable. It comes in different shapes and sizes, and every asset class is vulnerable. How vulnerable a class is depends on the type of risk you're talking about. So, get to know the greatest perils each asset class faces. The more you understand about risk, the better prepared you'll be to make informed investment decisions.

How Are the Markets Doing?

Market risk is the potential for an investor to experience losses from fluctuations in the stock or bond markets. Stock funds generally carry more market risk than bond funds because stocks are typically the most volatile of the asset classes.

How's Business?

There is always the risk that a company in which your stock fund has invested may not perform well—due to lower demand for a company's product or service, an economic slowdown, or a leadership problem within the company. This is called business risk.

In Debt May Mean Doubt

Default risk is the possibility that a borrower will be unable to pay the interest or principal on debt. Bond investments obviously carry the greatest amount of default risk because a bond is essentially a loan that must be paid back.

Your Nest Egg and Inflation

Inflation has the potential to reduce the value of your savings over time. If your returns don't at least keep pace with inflation, you won't be able to buy as much with your money when you retire. Money market funds typically carry the greatest amount of inflation risk because, historically, they have barely outpaced inflation.

A Matter of Interest Rates

Bonds carry the most immediate interest rate risk because their value is tied to interest rates. When interest rates rise, the value of existing bonds falls. (See Your Interest in Interest Rates on previous page.) Rising interest rates also may lower the value of your stock fund investments. When interest rates go up, it may be harder for some companies to borrow money, which could affect their ability to grow and prosper.

There are no risk-free investments, but there are ways to deal with risk in your portfolio. Spread your investments across asset classes and diversify within each asset class. A mix of stock, bond, and money market funds may help soften the blow if one or more of your investments stumbles.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information

800.442.1300

217.782.7006

TDD/TTY: 800.526.0844

Internet:

www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value
Information and Investment Changes: 888.457.5770

TDD/TTY: 800.521.0325

Internet Access: 800.541.3022

Internet: rps.troweprice.com

Fund Performance:

Columbia Acorn Fund: 800.922.6769

Ariel Fund: 800.292.7435

Fidelity Funds: 800.544.8888

Provident Investment Counsel: 800.618.7643

Stable Return Fund/INVESCO: 800.228.7466

T. Rowe Price Funds: 800.922.9945

Vanguard Funds: 800.523.8066

Wells Fargo: 800.222.8222

Income and Price Information

First Quarter 2004

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Columbia Acorn	Ariel	T. Rowe Price Int'l Stock	PIC Small Cap Growth
01/02/04	\$10.27	\$9.01	\$18.43	\$28.00	\$101.47	\$44.99	\$22.60	\$45.24	\$11.61	\$15.76
01/05/04	\$10.26	\$9.01	\$18.60	\$28.37	\$102.73	\$45.62	\$22.90	\$45.67	\$11.83	\$16.07
01/06/04	\$10.32	\$9.05	\$18.62	\$28.36	\$102.87	\$45.81	\$22.97	\$45.61	\$11.82	\$16.14
01/07/04	\$10.33	\$9.06	\$18.62	\$28.42	\$103.14	\$46.12	\$23.01	\$45.65	\$11.70	\$16.27
01/08/04	\$10.33	\$9.06	\$18.70	\$28.60	\$103.65	\$46.27	\$23.15	\$46.04	\$11.86	\$16.37
01/09/04	\$10.40	\$9.12	\$18.61	\$28.32	\$102.73	\$45.79	\$23.12	\$45.65	\$11.87	\$16.33
01/12/04	\$10.40	\$9.12	\$18.67	\$28.43	\$103.23	\$46.04	\$23.28	\$45.90	\$11.81	\$16.51
01/13/04	\$10.42	\$9.14	\$18.61	\$28.27	\$102.68	\$45.83	\$23.21	\$45.83	\$11.78	\$16.40
01/14/04	\$10.43	\$9.14	\$18.71	\$28.44	\$103.53	\$46.35	\$23.37	\$45.98	\$11.88	\$16.54
01/15/04	\$10.43	\$9.14	\$18.74	\$28.45	\$103.68	\$46.27	\$23.28	\$46.21	\$11.72	\$16.56
01/16/04	\$10.42	\$9.13	\$18.79	\$28.67	\$104.39	\$46.55	\$23.52	\$46.23	\$11.70	\$16.75
01/20/04	\$10.40	\$9.12	\$18.81	\$28.63	\$104.29	\$46.36	\$23.66	\$46.51	\$11.86	\$16.95
01/21/04	\$10.41	\$9.13	\$18.96	\$28.90	\$105.11	\$46.50	\$23.75	\$46.56	\$11.98	\$16.85
01/22/04	\$10.44	\$9.16	\$18.94	\$28.80	\$104.77	\$46.51	\$23.64	\$46.37	\$11.98	\$16.70
01/23/04	\$10.40	\$9.12	\$18.88	\$28.73	\$104.55	\$46.53	\$23.77	\$46.57	\$11.90	\$16.81
01/26/04	\$10.37	\$9.10	\$18.99	\$29.07	\$105.82	\$47.12	\$23.93	\$47.05	\$11.92	\$17.00
01/27/04	\$10.39	\$9.12	\$18.89	\$28.74	\$104.78	\$46.47	\$23.79	\$46.73	\$11.86	\$16.77
01/28/04	\$10.34	\$9.07	\$18.66	\$28.33	\$103.37	\$45.65	\$23.47	\$46.26	\$11.75	\$16.47
01/29/04	\$10.33	\$9.06	\$18.67	\$28.46	\$103.91	\$45.86	\$23.30	\$46.29	\$11.61	\$16.27
01/30/04	\$10.36	\$9.08	\$18.68	\$28.45	\$103.64	\$45.76	\$23.38	\$46.27	\$11.63	\$16.34
02/02/04	\$10.36	\$9.08	\$18.71	\$28.56	\$104.02	\$45.90	\$23.39	\$46.52	\$11.65	\$16.26
02/03/04	\$10.38	\$9.10	\$18.71	\$28.55	\$104.09	\$45.98	\$23.44	\$46.51	\$11.69	\$16.20
02/04/04	\$10.37	\$9.09	\$18.60	\$28.34	\$103.24	\$45.48	\$23.09	\$46.21	\$11.58	\$15.84
02/05/04	\$10.34	\$9.07	\$18.64	\$28.40	\$103.43	\$45.32	\$23.20	\$46.49	\$11.65	\$15.93
02/06/04	\$10.38	\$9.11	\$18.80	\$28.77	\$104.73	\$46.22	\$23.62	\$47.17	\$11.85	\$16.32
02/09/04	\$10.39	\$9.12	\$18.81	\$28.73	\$104.48	\$45.90	\$23.69	\$47.15	\$11.90	\$16.42
02/10/04	\$10.38	\$9.11	\$18.88	\$28.90	\$105.01	\$46.08	\$23.91	\$47.47	\$11.94	\$16.57
02/11/04	\$10.42	\$9.14	\$19.07	\$29.28	\$106.17	\$46.79	\$24.07	\$47.88	\$12.11	\$16.68
02/12/04	\$10.40	\$9.13	\$19.02	\$29.10	\$105.66	\$46.59	\$23.99	\$47.59	\$12.03	\$16.56
02/13/04	\$10.41	\$9.14	\$18.97	\$28.93	\$105.09	\$46.25	\$23.79	\$47.27	\$12.00	\$16.39
02/17/04	\$10.41	\$9.14	\$19.10	\$29.17	\$106.12	\$46.75	\$24.08	\$47.83	\$12.20	\$16.59
02/18/04	\$10.41	\$9.14	\$19.03	\$29.00	\$105.66	\$46.46	\$23.99	\$47.70	\$12.16	\$16.60
02/19/04	\$10.41	\$9.13	\$19.00	\$28.87	\$105.23	\$46.05	\$23.75	\$47.25	\$12.19	\$16.31
02/20/04	\$10.39	\$9.11	\$18.93	\$28.79	\$104.96	\$46.00	\$23.63	\$47.11	\$12.01	\$16.13
02/23/04	\$10.40	\$9.13	\$18.92	\$28.72	\$104.67	\$45.58	\$23.39	\$46.82	\$12.03	\$15.74
02/24/04	\$10.41	\$9.14	\$18.87	\$28.69	\$104.50	\$45.56	\$23.47	\$46.94	\$11.98	\$15.68
02/25/04	\$10.42	\$9.14	\$18.93	\$28.82	\$104.93	\$45.73	\$23.57	\$47.22	\$11.87	\$15.93
02/26/04	\$10.41	\$9.13	\$18.95	\$28.86	\$105.07	\$45.82	\$23.71	\$47.61	\$11.86	\$16.09
02/27/04	\$10.43	\$9.15	\$18.98	\$28.83	\$105.08	\$45.73	\$23.83	\$47.70	\$11.92	\$16.13
03/01/04	\$10.43	\$9.15	\$19.11	\$29.15	\$106.10	\$46.17	\$24.22	\$48.37	\$12.11	\$16.43
03/02/04	\$10.40	\$9.13	\$19.05	\$28.98	\$105.47	\$45.80	\$24.16	\$48.27	\$11.96	\$16.36
03/03/04	\$10.40	\$9.13	\$19.07	\$29.03	\$105.67	\$45.90	\$24.13	\$48.37	\$11.83	\$16.26
03/04/04	\$10.41	\$9.14	\$19.12	\$29.12	\$106.03	\$46.31	\$24.27	\$48.75	\$11.96	\$16.48
03/05/04	\$10.49	\$9.21	\$19.09	\$29.10	\$106.21	\$46.31	\$24.41	\$48.92	\$12.06	\$16.50
03/08/04	\$10.52	\$9.23	\$19.02	\$28.86	\$105.33	\$45.87	\$24.24	\$48.52	\$11.97	\$16.22
03/09/04	\$10.53	\$9.24	\$18.93	\$28.68	\$104.72	\$45.56	\$23.99	\$48.25	\$12.00	\$16.02
03/10/04	\$10.53	\$9.23	\$18.72	\$28.22	\$103.20	\$44.87	\$23.59	\$47.67	\$11.72	\$15.68
03/11/04	\$10.52	\$9.22	\$18.53	\$27.80	\$101.66	\$44.39	\$23.30	\$47.07	\$11.54	\$15.55
03/12/04	\$10.51	\$9.22	\$18.67	\$28.13	\$102.93	\$45.12	\$23.65	\$47.77	\$11.61	\$15.88
03/15/04	\$10.50	\$9.21	\$18.48	\$27.74	\$101.45	\$44.26	\$23.25	\$47.01	\$11.41	\$15.44
03/16/04	\$10.53	\$9.24	\$18.56	\$27.89	\$102.02	\$44.43	\$23.31	\$47.26	\$11.56	\$15.36
03/17/04	\$10.54	\$9.24	\$18.73	\$28.23	\$103.24	\$45.11	\$23.68	\$47.85	\$11.72	\$15.74
03/18/04	\$10.51	\$9.22	\$18.72	\$28.22	\$103.11	\$44.85	\$23.61	\$47.50	\$11.73	\$15.68
03/19/04	\$10.50	\$9.21	\$18.60	\$27.93	\$101.95	\$44.24	\$23.45	\$47.31	\$11.62	\$15.58
03/22/04	\$10.52	\$9.23	\$18.42	\$27.51	\$100.63	\$43.68	\$23.09	\$46.67	\$11.50	\$15.17
03/23/04	\$10.52	\$9.23	\$18.41	\$27.48	\$100.50	\$43.54	\$23.21	\$46.85	\$11.53	\$15.14
03/24/04	\$10.52	\$9.23	\$18.34	\$27.39	\$100.26	\$43.67	\$23.18	\$46.70	\$11.50	\$15.12
03/25/04	\$10.51	\$9.22	\$18.51	\$27.84	\$101.90	\$44.75	\$23.57	\$47.36	\$11.68	\$15.60
03/26/04	\$10.47	\$9.19	\$18.51	\$27.82	\$101.42	\$44.51	\$23.59	\$47.21	\$11.64	\$15.67
03/29/04	\$10.45	\$9.17	\$18.67	\$28.18	\$102.76	\$45.24	\$23.90	\$47.75	\$11.80	\$15.91
03/30/04	\$10.45	\$9.17	\$18.73	\$28.32	\$103.18	\$45.25	\$24.06	\$47.82	\$11.81	\$16.08
03/31/04	\$10.46	\$9.19	\$18.75	\$28.32	\$103.11	\$45.12	\$24.19	\$48.16	\$11.92	\$16.07

¹ New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 31 days were credited for January, 28 days were credited for February, and 31 days were credited for March.

² Puritan declared a distribution of \$.11 payable March 5, 2004, to shareholders of record on March 4, 2004, using a share value of \$19.09.

³ Fidelity declared a distribution of \$.05 payable March 5, 2004, to shareholders of record on March 4, 2004, using a share value of \$29.10.

⁴ Vanguard Institutional Index Fund declared a distribution of \$.58 payable March 26, 2004, to shareholders of record on March 25, 2004, using a share value of \$101.42.